HALLMAC MINES LTD.
(N.P.L.)

1985
ANNUAL REPORT

Corporate Information

DIRECTORS

Robert B. Fraleigh . . . . Calgary, Alberta
David H. McDermid . . . . . Calgary, Alberta
George W. Oughtred . . . . . Calgary, Alberta

OFFICERS

Robert B. Fraleigh . . . . President
David H. McDermid . . . Secretary-Treasurer

SOLICITORS

Bennett Jones
3200 Shell Centre
400 Fourth Avenue S.W.
Calgary, Alberta
T2P 0X9

AUDITORS

Thorne Riddell
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank
2 Calgary Place
330 Fifth Avenue S.W.
Calgary, Alberta
T2P 0L4

REGISTRAR AND TRANSFER AGENT

Guaranty Trust Company of Canada
Calgary, Alberta and Vancouver, B.C.

EXECUTIVE OFFICES

220 Humford Building
608 - Seventh Street S.W.
Calgary, Alberta
T2P 1Z2
Telephone: (403) 261-6882

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol HLC

ANNUAL MEETING

Bennett Jones
3200 Shell Centre
400 Fourth Avenue S.W.
Calgary, Alberta
on Thursday, February 20, 1986 at
10:00 o'clock in the morning.

Report to the Shareholders

During the past year the market price for silver and most base metals was severely depressed. In the past, your company's main asset was the previously producing silver mine at Sandon, British Columbia. Operations at the mine are presently suspended due to low prices for silver, lead and zinc. The Company is carrying a total mineral inventory for the mine of 246,000 oz. of silver, 880 tons of lead and 213 tons of zinc which includes stock piled high grade and ore in place.

In 1985, options on leases that have been evaluated by drilling and trenching, and that were determined to be of less than economic value were dropped. Two leases adjoining the Company's claims may have value and are currently under negotiation. Should the Company be successful in acquiring these leases, geophysical works and possibly some drifting may be undertaken. It is your management's opinion that the mine could be profitably re-opened should silver trade at $10.00 U.S. funds per oz.

Your attention is directed to the enclosed information circular. Your Board of Directors is soliciting shareholder approval of the following measures:

1) To consolidate the authorized and issued and outstanding Common Shares in the capital of the Company on a one for three basis and increase the number of Common Shares the Company is authorized to issue to 20,000,000 Common Shares. At present there are 6,292,556 Common Shares issued and outstanding. After consolidating there will be 2,097,519 Common Shares issued and outstanding.
2) A change of name from Hallmac Mines Ltd. (N.P.L.) to Royal Oak Resources Ltd.
3) To issue Convertible Preferred Shares of the Company to Commercial Oil and Gas Ltd. in exchange for Canadian gas and oil properties of a value of $2,110,000 discounted to present worth at 20%. The net revenues from the properties will approximate $200,000 per annum.

Full details of the above and other measures are fully explained in the information circular.

The Company plans an issue of common shares from Treasury in 1986 and intends to use the proceeds to conduct an active mining exploration program in Canada.

Mr. W.M. Wheeler, who was responsible for Hallmac's original exploration and production and was the long time President, died in March, 1985. His optimism, vision and enthusiasm are missed at the mine and the Company Board Meetings. Mr. George W. Oughtred has returned to the Company's Board of Directors, replacing Mr. Wheeler.

Financial

At the recommendation of our auditors, and with the agreement of the board, the Company has taken a further write down of its assets. This places a value on the Company more in line with the current prices of silver and puts the Company on a solid basis in preparation for future growth.

On behalf of the Board of Directors

R.B. Fraleigh

D.H. McDermid

Auditor's Report

To the Shareholders of
Hallmac Mines Limited (N.P.L.)

We have examined the consolidated balance sheet of Hallmac Mines Limited (N.P.L.) as at June 30, 1985 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at June 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Calgary, Canada
September 20, 1985

Thorne Riddell
Chartered Accountants

(Incorporated under the laws of British Columbia)

Consolidated Balance Sheet as at June 30, 1985

ASSETS	1985	1984
CURRENT ASSETS		
Cash	$ 1,087	$ 83,696
Accounts receivable	5,136	94,604
Advances on account of share subscriptions	—	46,962
	6,223	225,262
RECEIVABLE FROM OFFICER (note 4)	—	198,000
PROPERTY AND EQUIPMENT (note 3)	700,467	1,206,440
	$ 706,690	$ 1,629,702
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 24,770	$ 43,753
Advances on account of share subscriptions	—	46,962
	24,770	90,715
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 4)	2,286,251	2,258,681
CONTRIBUTED SURPLUS	888,380	963,950
DEFICIT	(2,492,711)	(1,683,644)
	681,920	1,538,987
	$ 706,690	$ 1,629,702

FUTURE OPERATIONS (note 2)

Approved by the Board

R B Frnalegh Director

A W Ainghtrah Director

Consolidated Statement of Earnings and Deficit

Year Ended June 30, 1985

	1985	1984
REVENUE		
Mineral sales	$ —	$ 266,856
Petroleum and natural gas sales	6,063	10,793
Interest	3,085	16,751
Gain on sale of property and equipment	—	4,583
	9,148	298,983
EXPENSES		
Mine operating	7,519	169,733
Petroleum and natural gas operating	1,161	7,719
General and administrative	57,708	86,710
Interest	—	7,572
Depletion and depreciation	1,827	88,605
Write-down of mineral leases and rights (note 3)	750,000	1,500,000
Write-down of petroleum and natural gas leases and rights	—	118,948
	818,215	1,979,287
LOSS BEFORE TAXES	(809,067)	(1,680,304)
TAXES		
British Columbia capital tax	—	3,807
Deferred income tax reduction	—	(10,500)
	—	(6,693)
LOSS	(809,067)	(1,673,611)
DEFICIT AT BEGINNING OF YEAR	(1,683,644)	(10,033)
DEFICIT AT END OF YEAR	$ (2,492,711)	$(1,683,644)
LOSS PER SHARE	$ (.14)	$ (.30)

Consolidated Statement of Changes in Financial Position

Year Ended June 30, 1985

	1985	1984
WORKING CAPITAL DERIVED FROM		
Operations	$ —	$ 18,859
Issue of capital stock		
For cash	—	274,134
For expenditures on property and equipment	150,000	987,811
Proceeds on sale of property and equipment	—	103,300
	150,000	1,384,104
WORKING CAPITAL APPLIED TO		
Operations	57,240	—
Additions to property and equipment	245,854	1,189,143
	303,094	1,189,143
INCREASE (DECREASE) WORKING CAPITAL POSITION	(153,094)	194,961
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	134,547	(60,414)
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ (18,547)	$ 134,547

Notes to Consolidated Financial Statements

Year Ended June 30, 1985

1. **ACCOUNTING POLICIES** (see note 2)

(a) Consolidation

These consolidated financial statements include the accounts of Hallmac Mines Limited (N.P.L.) and its wholly-owned subsidiary, Hallmac Mines Inc.

(b) Mineral Properties and Mining Operations

Expenditures relating to the acquisition, exploration and development of mineral properties are capitalized by area of interest. Upon commencement of commercial production, capitalized costs related to an area of interest are amortized on the unit of production method. When the Company has no further interest in a non-producing area or if exploration is unsuccessful and discontinued in a cost centre, the balance of unamortized costs will be charged to earnings (see note 3).

Revenue from producing projects is reflected in earnings when ore is shipped to the smelter.

(c) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and related overhead expenses. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a country by country basis using the unit of production method based on estimated proven recoverable reserves. Capitalized costs, net of accumulated depletion and depreciation, are limited to future net revenues from estimated production of proved reserves at current prices and costs, plus the lower cost or estimated fair value of unproved property.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to the Company's total reserves in the particular cost centre.

All the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(d) Depreciation

Depreciation is provided on production equipment and related facilities using the unit of production method based on estimated proven recoverable reserves. Other equipment is depreciated on a declining balance basis at annual rates of 20% and 30%.

(e) Foreign Currency Translation

The Company uses the temporal method in the translation of its accounts into Canadian dollars. Under the temporal method, monetary items are translated at the rates of exchange in effect at the balance sheet date and non-monetary items are translated at the rates of exchange in effect when the assets were acquired or the liabilities incurred. Revenue and expenses, other than depletion and depreciation which are translated at the same rates of exchange as the related assets, are translated at the average rates of exchange in effect during the year. The resulting foreign exchange gains or losses are relected in earnings except for unrealized gains or losses related to monetary items with a fixed or ascertainable life extending beyond the end of the fiscal year. Such unrealized gains or losses are deferred and amortized over the remaining term of the related monetary item.

Notes to Consolidated Financial Statements (Continued)
Year Ended June 30, 1985

2. FUTURE OPERATIONS

The Company has incurred operating losses during the year and has a deficit as at June 30, 1985. The future of the Company will depend upon its ability to obtain adequate financing and attain profitable operations (see note 3). These financial statements are prepared on the basis that the Company will continue to operate as a going concern throughout its next fiscal period subsequent to June 30, 1985. Failure to continue as a going concern would require that stated amounts of assets and liabilities be reflected on a liquidation basis which could differ from the going concern basis.

3. PROPERTY AND EQUIPMENT

	1985			1984
	Cost	Accumulated Depletion and Depreciation	Net	Net
Mineral leases and rights including exploration, development and equipment thereon	$ 926,295	$ 244,892	$ 681,403	$ 1,189,764
Petroleum and natural gas leases and rights including exploration, development and equipment thereon	20,021	6,491	13,530	10,000
Office furniture	6,503	2,111	4,392	5,201
Automotive equipment	5,350	4,208	1,142	1,475
	$ 958,169	$ 257,702	$ 700,467	$ 1,206,440

In 1981, the Company commenced mineral production from delineated reserves on one of its properties and concurrently began amortizing the capitalized expenditures related to the property. In the year ended June 30, 1984, production from the delineated reserves was discontinued as the Company was commencing a further assessment of economically recoverable reserves. Concurrent therewith the company wrote down recorded costs by $1,500,000. In the year ended June 30, 1985, a further write-down of $750,000 was made to reflect management's assessment of the economically recoverable reserves.

Notes to Consolidated Financial Statements (Continued)

Year Ended June 30, 1985

4. CAPITAL STOCK

(a) Authorized

10,000,000 Common shares with a par value of $0.05 each.

(b) Issued

	Number of Shares	Capital Stock	Contributed Surplus
Balance June 30, 1983	$ 4,744,255	$ 1,572,114	$ 388,572
Issued and to be issued for expenditures on property and equipment	863,134	431,567	556, 244
Issued for cash through public offering	500,000	250,000	18,534
Issued for cash pursuant to employee stock options	10,000	5,000	600
	1,373,134	686,567	575,378
Balance June 30, 1984	6,117,389	2,258,681	963,950
Issued for expenditures on property and equipment	375,000	150,000	—
Cancellation of shares forfeited under share purchase plan	(330,000)	(122,430)	(75,570)
	45,000	27,570	(75,570)
Balance June 30, 1985	$ 6,162,389	$ 2,286,251	$ 888,380

During the year the note receivable from an officer in the amount of $198,000 was settled through cancellation of shares surrendered under a share purchase plan.

5. INCOME TAXES

As at June 30, 1985, property and equipment costs of $461,222 (1984 - $758,058) relate to expenditures made in accordance with certain provisions of the Income Tax Act (Canada) under which such expenditures are not deductible by the Company for income tax purposes.

6. SEGMENTED INFORMATION

The Company is primarily engaged in one industry, mining exploration, development and production in Canada.

7. STATUTORY INFORMATION

During the year ended June 30, 1985 directors and officers of the Company were paid management and consulting fees amounting to $28,000 (1984 - $80,500).

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